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R. J. Reynolds Tobacco Company
Annual Report 1966

R. J. Reynolds Tobacco Company

WINSTON-SALEM/NORTH CAROLINA

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Comparative Summary

CONSOLIDATED

	1966	1965
Net sales	$1,785,328,996	$1,693,148,320
Net earnings	137,924,914	133,356,992
Per share of Common Stock*	3.48	3.30
Net earnings as a percentage of net sales	7.73%	7.88%
Dividends on Preferred Stock	$ 720,000	$ 722,129
Dividends on Common Stock	79,761,408	75,006,254
Per share of Common Stock	2.00	1.85
*Based on shares outstanding at year end	39,481,149	40,191,376
Capital expenditures	$ 33,336,718	$ 20,246,025
Depreciation	23,277,029	21,859,294
Total assets	$1,205,379,744	$1,111,986,583
Current assets	903,505,120	881,657,619
Current liabilities	347,060,233	273,370,403
Net current assets—working capital	556,444,887	608,287,216
Real estate, machinery and equipment—net	201,165,879	181,633,268
Long-term debt	48,000,000	55,000,000
Equity of holders of Preferred Stock	20,000,000	20,000,000
Equity of holders of Common Stock	790,319,511	763,616,180
Number of stockholders at year end	131,343	118,281
Number of regular employees at year end	19,158	16,320

To the Stockholders

The Company's business in 1966 reached the highest level in its history. New records were attained in sales and earnings, and for the thirteenth consecutive year the total dividend payment per share of Common Stock was higher than the year before.

Consolidated sales were $1,785,328,996, a gain of 5.4 per cent over those of 1965. Consolidated net earnings amounted to $137,924,914, an increase of 3.4 per cent.

All product categories—tobacco, packaging materials, foods, beverages, and industrial corn derivatives—showed year-to-year increases. Sales of non-tobacco products accounted for a larger share of the Company's sales volume and now represent approximately 10 per cent of total sales.

The Company's leadership as the largest manufacturer of cigarettes in the United States for both the domestic and the export markets was maintained. WINSTON moved into the top position in sales of all cigarette brands in the country in 1966, according to industry analysts, and CAMEL and SALEM ranked third and fourth. Thus the Company again placed three of its brands among the four best-selling cigarettes, and each of the three was again the leader in its own category.

The Company's diversification program continued to move ahead with the acquisition of The Chun King Corporation, a leading manufacturer of Oriental-style foods, and Filler Products, Inc., producers of a wide variety of snack food products. A new subsidiary, R. J. Reynolds Foods, Inc., was formed to consolidate the Company's expanding interests in the food industry.

With the transfer of its Grocery Products Division to the new food subsidiary, Penick & Ford, Limited, will hereafter be wholly concerned with the production and marketing of its broad line of industrial products. The company offices are now located in Cedar Rapids, Iowa. The reorganization of this subsidiary places it in a favorable position to capitalize on the growing industrial demands for starches, oils, and syrups derived from corn and potatoes.

To consolidate the operations and management of the Company's growing interests in the aluminum and packaging industries, effective January 1, 1967, the Archer Aluminum Division at Winston-Salem was transferred to Archer Products, Inc., a wholly-owned subsid-

BOWMAN GRAY

A. H. GALLOWAY

iary previously operating at Greeneville, Tennessee only.

Construction is under way in Winston-Salem on a product development center, consisting of five pilot plants, an administration and laboratory building, and a utilities building. Including equipment, the center will represent an investment of about $7,500,000. It will facilitate the essential work being done by the research department and the product development department to improve existing products and create new products. This program now encompasses tobacco, food, beverage, and industrial products.

R. J. Reynolds S.A., Inc., a wholly-owned subsidiary with offices in Geneva, Switzerland, was created as the management corporation to supervise all business of the R. J. Reynolds Tobacco Company and its affiliates and subsidiaries in the European market.

Reynolds Cigarette Corporation, with a plant in Reinach, Switzerland, was organized during the year as a wholly-owned subsidiary and manufactures WINSTON Cigarettes for the Swiss market.

As part of the accelerated program of international expansion, licensing agreements were entered into for the manufacture of WINSTON, CAMEL, and SALEM Cigarettes in Peru, CAMEL in Holland, and WINSTON in Austria.

* * *

The Federal Cigarette Labeling and Advertising Act became effective on January 1, 1966. That Act requires all cigarette packages and cartons to bear the statement, "Caution: Cigarette smoking may be hazardous to your health." Another requirement is that reports be submitted to Congress by July 1, 1967, and annually thereafter by the Secretary of Health, Education and Welfare as to current information on the health consequences of smoking and by the Federal Trade Commission as to the effectiveness of cigarette labeling and current practices and methods of cigarette advertising and promotion. Such reports also are to include recommendations for legislation deemed appropriate.

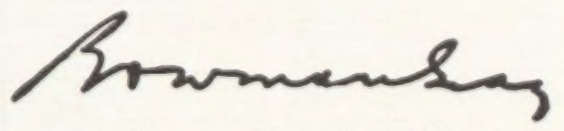
Last year a bill was introduced in Congress that would have required all cigarette packages and advertisements to list the quantity of so-called "tar" and nicotine yield of the smoke. Recently the Secretary of Health, Education and Welfare endorsed such a proposal. This matter was thoroughly considered by the Congress in the hearings in 1964 and 1965 that led to the adoption of the Federal Cigarette Labeling and Advertising Act. At that time it was pointed out that science had not established human health significance for "tar" or nicotine or for particular levels thereof. In testifying before a Congressional Committee your Chairman stated, "Because there is no scientific basis for implicating any specific ingredient in cigarette smoke, we think it would be misleading to the public for Congress to require the quantity of any ingredient in the smoke to be stated on cigarette packages." We know of no new evidence demonstrating that "tar," nicotine, or any other ingredient in smoke is responsible for human illness.

The vast amount of anti-cigarette propaganda not supported by scientific evidence that is being disseminated is of concern. The public is entitled to be informed of facts, but these facts can only be ascertained by sound and careful scientific research. Your Company and others in the industry are and have been supporting comprehensive research aimed at ascertaining these facts.

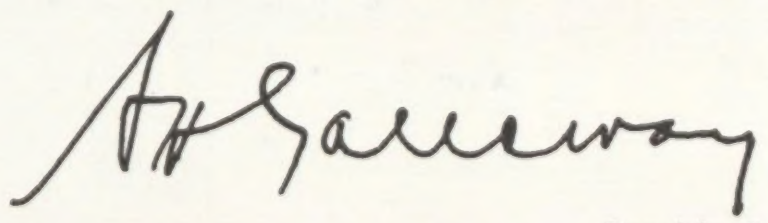
* * *

The success of the Company and its subsidiaries during the year could not have been achieved without the cooperation and loyalty of all our employees at all levels. To them we express our sincere appreciation. With their continuing efforts and dedication we are confident that the challenges which lie ahead will be successfully met.

Respectfully submitted for the Board of Directors.



Chairman, Board of Directors



President

February 8, 1967

Tobacco Products

In 1966, of the four best-selling cigarette brands in the nation, three were Reynolds products.

WINSTON became the largest-selling cigarette brand in the country, with CAMEL and SALEM ranking third and fourth, according to independent marketing analysts.

WINSTON attained a greater volume and share of the market than ever before.

SALEM, the nation's largest-selling menthol cigarette by far, gained in volume despite the introduction of a number of competitive menthol brands. It continued to be the second largest seller among all filter brands.

CAMEL, the leader among regular size, non-filter cigarettes, improved its share of that market, although it again declined in volume as did the industry's total non-filter category.

After extensive testing of blend, packaging, and advertising, CAMEL Filter moved from test markets into national distribution.

CAMEL Menthol Filter, developed to expand the Company's share of the growing menthol cigarette market, was placed in test areas in August.

TEMPO, while not a major brand, was maintained as an entry for Reynolds in the charcoal-tip cigarette category.

The smoking tobacco business of the Company, along with that of the industry, declined in 1966. Reynolds' decline was about in line with that of the industry.

PRINCE ALBERT continued as the nation's best-selling smoking tobacco.

CARTER HALL again was the Company's second largest-selling smoking tobacco brand.

National distribution of MADEIRA MIXTURE Smoking Tobacco was achieved in early 1966. This brand is now firmly positioned among the premium-priced, luxury blends. Humidor tins, in eight-ounce and sixteen-ounce sizes, were introduced early in the year as additional styles of packaging.

DAYS WORK gained in volume in 1966 and remained in top position among plug chewing tobaccos, although the Company's total sales of chewing tobaccos were slightly lower.

CAMEL
TURKISH & DOMESTIC BLEND CIGARETTES
Camel
CIGARETTES
CAMEL
FILTER CIGARETTES
Famous Camel Quality
FAMOUS CAMEL QUALITY
CAMEL
FILTER CIGARETTES
KING SIZE
Winston
FILTER-CIGARETTES
FULL-RICH TOBACCO FLAVOR
Winston
FILTER-CIGARETTES
FULL-RICH TOBACCO FLAVOR
THE NEW TREND IN SMOKING TASTE
Tempo
KING SIZE FILTER CIGARETTES
Tempo
THE NEW TREND IN SMOKING TASTE
Filter Cigarettes
Menthol Flavor
Menthol Flavor
Salem
FILTER CIGARETTES
Salem
CIGARETTES

ADVERTISING PROGRAM

The Company's continued sales leadership in tobacco products in 1966 was supported by effective advertising in a variety of media.

The major cigarette brands received broad exposure through network and spot television; network and spot radio; general magazines; men's, women's, and farm magazines; and newspapers. Point-of-sale materials, Railway Express truck posters, and transportation car cards furnished additional advertising weight.

The Company's major smoking tobaccos were promoted in the following media: PRINCE ALBERT—network television sports programs, radio spots, and farm magazines; CARTER HALL—network television sports programs; and MADEIRA MIXTURE—national magazines.

In all advertising media, the primary objective was to present an effective sales story for each brand on the most efficient basis possible. In the important area of network television, the Company's television commercials were placed on a wide variety of programs in an effort to reach adult smokers of diverse tastes in entertainment.

NO. 1 ADVERTISER IN TV SPORTS

Through increased sponsorship of many leading athletic events, the Company has become the largest single advertiser in televised sports. Audience composition studies have shown that sports programs deliver a high percentage of adult viewers. Company cigarette brands were featured on every telecast and radio broadcast of each World Series baseball game. Other sports programs on which the Reynolds brands were advertised included "American Sportsman," "NBC Major League Baseball," "NCAA College Football," and "AFL Professional Football." Sports specials consisted of "Triple Crown Horse Races," "Stanley Cup Hockey Games," and several football bowl games. Regional sports programs included horse racing and baseball.

Other television categories in which the Company's advertising was represented (with outstanding examples mentioned) were: musical variety ("The Andy Williams Show," "The Danny Kaye Show"), comedy ("Beverly Hillbillies," "Love on a Rooftop"), westerns ("The Virginian"), war adventure ("Rat Patrol"), mystery drama ("T.H.E. Cat"), panel ("I've Got a Secret"), and news and current events ("Today Show").

NEW ADVERTISING THEMES

Several new cigarette advertising themes were used during the year. Renewed attention was drawn to the famous WINSTON slogan with the variation, "WINSTON tastes good like *your* cigarette should." SALEM's main themes were "Try the flavor that's Springtime Fresh" and "SALEM refreshes your taste." TEMPO was promoted as "The new trend in smoking taste."

CAMEL Filter was introduced nationally with the theme, "Drop everything! *Real* taste just came to filter cigarettes." This campaign was followed by the theme, "New CAMEL Filter... the filter cigarette that was born rich," to suggest the CAMEL heritage of quality and flavor.

CAMEL Regular continued to feature the theme, "CAMEL's *real* taste satisfies longer."

PRINCE ALBERT Smoking Tobacco was advertised with the theme, "The proof is in the puffing." CARTER HALL was promoted as "the comfortable tobacco."

National magazine advertising for MADEIRA MIXTURE Smoking Tobacco was launched with the principal theme, "Light up a taste of adventure."

SALES PROMOTION

In addition to advertising in mass media, the Company's brands were intensively promoted at the point of sale by a large field sales force.

Many types of promotions were used throughout the year to stimulate the featuring of Reynolds brands by retailers and to gain additional consumer awareness and trial of the products. The two major seasonal promotions, for Father's Day and Christmas, were highly successful.

New selling and promotional techniques were developed and put to effective use by the marketing and sales groups.

Leaf tobacco, purchased at an auction market, is received at one of Reynolds' five processing plants located in North Carolina, Kentucky and Virginia.

PRINCE ALBERT
PRINCE ALBERT
CRIMP CUT
LONG BURNING PIPE AND CIGARETTE TOBACCO
PRINCE ALBERT
LONG BURNING
Prince Albert
MADEIRA
MIXTURE
AROMATIC BLEND
MADEIRA
MIXTURE
AROMATIC BLEND
CARTER HALL
A Distinguished Tobacco Mixture
George Washington
CARTER HALL
A Distinguished Tobacco Mixture
George Washington

Food Products

Expansion of the Company's packaged food products business was accelerated in 1966 with the acquisition of two well-established and growing food organizations—The Chun King Corporation and Filler Products, Inc.

Together with the grocery products line of Penick & Ford, acquired in 1965, these convenience food businesses are being consolidated in a new subsidiary under the name of R. J. Reynolds Foods, Inc.

PACKAGED FOODS DIVERSIFICATION

This marks another step in carrying out the Company's objective of establishing a well-rounded packaged food business with related consumer products that can be marketed through the same channels.

The well-known grocery product brands of Penick & Ford include VERMONT MAID Syrups, MY-T-FINE Desserts, BRER RABBIT Molasses, SWEL Frosting Mixes, DAVIS Baking Powder, and COCOMALT, plus the COLLEGE INN lines of canned chicken and beef specialties, TOMATO COCKTAIL, and VEGAMATO Vegetable Juices.

ACQUISITIONS IN 1966

Chun King, acquired late in 1966, manufactures and markets nationally a variety of Oriental-style foods, both canned and frozen, under the CHUN KING and CHUN WONG labels. CHUN KING Oriental foods are outstanding brands in their field, and are in growing demand as convenience foods.

In the Filler snack line, including BAKON KRISP, KORN KURLS, CHEEZ-TRIX, and TORTEES, the Company acquired excellent products which provide fine vehicles for growth in this field. Snack foods, which have been called the "fourth meal," constitute a fast-growing segment of the food industry.

Together with the new product lines, talented people with successful experience in consumer packaged goods have been added to the organization. Emphasis on the development of new products was increased last year, with several items scheduled for test-marketing in 1967.

R. J. REYNOLDS FOODS, INC.
750 Third Avenue, New York, N. Y.

JOHN PHILLIPS
President and Chief Executive Officer

PLANT LOCATIONS
Addison, Illinois
Atlanta, Georgia
Burlington, Vermont
Cambridge, Maryland
Chicago, Illinois
Duluth, Minnesota
Harvey, Louisiana
Hoboken, New Jersey
Jackson, Ohio
Lockport, New York
Pinckneyville, Illinois
San Juan, Puerto Rico
Windsor, Ontario, Canada

Winston
MY-T-FINE
VEGAMA
VEGETAB
JUICES
Cocomalt
PUNCH
Verm
A1
39¢
CAMEL
MY-T-FINE
4
Coll
Inn
BEEF
BROTH
MUSHROOM
CHOW MEIN
TOMATO
COCKTAIL
College
Inn
CHICKEN
BROTH
VEGAMATO
VEGETABLE
JUICES
EGG NOODLES
& CHICKEN
Vermont
Maid
SYRUP
Vermont
Maid
BUTTERED SYRUP
MY-T-FINE
CHOCOLATE
PUDDING & PIE FILLING
MY-T-FINE
Instant Pudding
Vanilla
MY-T-FINE
WHOLE EGG CUSTARD
Coconut
Brer Rabbit
MOLASSES
SPECIAL RECIPE
Brer Rabbit
TABLE SYRUP
VACUUM PACKED
READY-TO-EAT
BAKON
KRISP

Beverage Products

During 1966, the tropical fruit beverages of Pacific Hawaiian Products Company continued to enjoy wide consumer popularity in a considerably enlarged but more competitive fruit-drink market. The presence of many new competitive fruit drinks in the spring and summer months accounted partially for the added industry volume. It also resulted in a proliferation of brands and new flavors, along with an unusual fragmentation of the total market during the normal peak selling season. In spite of these conditions, Pacific Hawaiian maintained a substantial share of the market for HAWAIIAN PUNCH and the company's annual sales volume exceeded that of the previous year.

NEW PRODUCTS INTRODUCED

New products highlighted the marketing activities of Pacific Hawaiian in 1966. In a major effort to capitalize upon the well-known HAWAIIAN PUNCH name in the form of new products, the company developed two new kinds of HAWAIIAN PUNCH—"Taste of Orange" and "Taste of Grape." Orange and grape drinks account for a large portion of total beverage industry sales, and Pacific Hawaiian's entry into those areas should result in substantially increased business.

The expanded HAWAIIAN PUNCH line now consists of 24 products. Extensive trade advertising reminds food buyers that, because of high quality and strong advertising, "All 24 Belong in Your Store." Fruit punches include the established "Rosy Red" and "Sunshine Yellow," plus the new "Taste of Orange" and "Taste of Grape." Each kind is available in both regular and low-calorie forms, ready-to-drink in 46-ounce cans and 12-ounce cans, and as frozen concentrates in 6-ounce cans.

ADVERTISING EXPANDED

The new HAWAIIAN PUNCH line was introduced nationally in November. Introductory advertising included nighttime network television and full-page color advertisements in national magazines and Sunday comic sections.

Consumer and trade response to the enlarged HAWAIIAN PUNCH line has been enthusiastic, and it is anticipated that 1967 sales will reflect a good gain for our beverage products.

PACIFIC HAWAIIAN PRODUCTS COMPANY
Fullerton, California

REUBEN P. HUGHES
President and Chief Executive Officer

PLANT LOCATIONS
Baltimore, Maryland
Fullerton, California
Kahului, Maui, Hawaii
Plymouth, Indiana

HAWAIIAN
PUNCH
HAWAIIAN
PUNCH
HAWAIIAN
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HAWAIIAN
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HAWAIIAN
PUNCH
HAWAIIAN
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HAWAIIAN
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HAWAIIAN
PUNCH
HAWAIIAN
PUNCH
CONCENTRATE
HAWAIIAN
PUNCH
CONCENTRATE
HAWAIIAN
PUNCH

Aluminum and Packaging Products

Although the major part of the 1966 production of aluminum and packaging products was used for tobacco products of the parent Company, sales to outside customers continued to grow at a rapid rate.

Effective January 1, 1967, the Company's Archer Aluminum Division at Winston-Salem, the rolling plant under construction at Huntingdon, Tennessee, and the consumer products facility at Greeneville, Tennessee, were consolidated in the wholly-owned subsidiary, Archer Products, Inc.

The consolidation should result in more effective management of Archer's rapidly expanding capabilities in packaging, converting, and the processing of aluminum sheet and foil. Its facilities include such diverse operations as aluminum strip casting; sheet and foil rolling and slitting; laminating and coating of numerous combinations by aqueous, wax, and thermoplastic materials; polyethylene extruded laminating and coating; multi-color printing, embossing and die-cutting; and metal forming.

Archer Products, Inc., is organized into three product divisions: *packaging and converting* (flexible packaging, foil and paperboard cartons, packaging overwraps and labels, laminated canister label and liner stock, foil-board, and semi-rigid aluminum containers), *metals* (aluminum sheet and foil, litho printing plate stock, and specialty aluminum products such as conductor strip), and *consumer products* (florist foils, household foils, and gift wrap, ribbons, and bows).

Construction work on the aluminum sheet and foil rolling plant at Huntingdon, Tennessee, is progressing satisfactorily, and this new facility is expected to be in production in the second quarter of 1967. Most of its sheet and foil output will be shipped to industrial markets. The plant will also serve as a back-up for the Winston-Salem plants in foil production.

The Archer organization has expanded from 160 employees to more than 1,000 since it became a Reynolds division in 1957. Manufacturing floor space has been increased from less than 100,000 square feet to well over one million. There is excellent opportunity for Archer Products, Inc. to continue to grow.

ARCHER PRODUCTS, INC.
Winston-Salem, North Carolina

SAMUEL A. ANGOTTI
President and Chief Executive Officer

PLANT LOCATIONS

Greeneville, Tennessee
Huntingdon, Tennessee
Winston-Salem, North Carolina

A newly cast coil of virgin aluminum begins its processing through rolling plant of Archer Products, Inc.

Redi-Bow
6
STICK ON BOWS
Pretti-Paks
ARCHER ALUMINUM
Cut-Rite
ALUMINUM
FOIL
HOT BITES
SweeTARTS
NEW
ELECTRA-SOL
SPOTLESS FILM-FREE DISHES
Stick-On TAGS
25
25¢
ARCHER
gift wrap
imperial
margarine
Borden's
NEW DANISH
MARGARINE
Master
Old Country
HARDTACK
GAMLA LANDETS KNÄCKEBRÖD
A CRISP RYE BREAD
TRI-NUT
MARGARINE
GOOD LUCK
NO ARTIFICIAL PRESERVATIVES
EIGHT-7 INCH SQUARES

Industrial Corn Products

PENICK & FORD, LIMITED
Cedar Rapids, Iowa

R. V. CRONIN
President and Chief Executive Officer

PLANT LOCATIONS
Aberdeen, Idaho
Blackfoot, Idaho
Cedar Rapids, Iowa
Idaho Falls, Idaho
Monte Vista, Colorado

The 1966 sales of corn derivatives through the industrial products division of Penick & Ford, Limited, again established an all-time record, continuing an unbroken upward trend of more than a decade.

The Cedar Rapids plant, strategically located in the heart of the Midwestern corn belt, operated at maximum capacity throughout the year. A program for modernizing and increasing the production of this plant was begun after the acquisition in 1965 and will be completed in the spring of 1967.

The corn refining industry is one with growing markets and expanding production facilities, and price competition continues to be severe. Penick & Ford, however, strengthened its market position and continues to grow.

A large number of grades, including many specialty types, of corn starch are produced and sold to a wide variety of industrial users, including the paper industry, textile industry, food producers, confectioners, chemical producers and others. Other corn derivatives produced include syrup, dextrines, gums, refined grits, oil, gluten feed, and gluten meal.

Corn starch is converted into various types of syrups with characteristics modified to meet customers' demands. The principal utilization is by confectioners, bakers, ice cream manufacturers, fruit and vegetable canners, and packers of jams, jellies, and preserves. The more highly specialized corn sweeteners are being used increasingly in the food processing industry.

NEW SPECIALTIES DEVELOPED

Technical field service and the development of new specialties received major attention during the year. Additional emphasis is being devoted to the corn derivatives area at the research and development center in Winston-Salem.

The potato products division operates plants at Aberdeen, Blackfoot, and Idaho Falls in Idaho and at Monte Vista in Colorado. These plants were not operated at full capacity in 1966, but an abundant potato harvest in these areas indicates full seasonal operations in 1967.

Potato flakes and potato flour are produced in the Idaho plants. For greater flexibility, a flake plant will be completed early in 1967 at Monte Vista, Colorado.

ASTRO
X-100
ASTRO
GUM
21
DOUGLAS
POWDERED
STARCH
DOUGLAS
STARCH

International Operations

The Company's principal cigarette brands continue to enjoy world-wide popularity and to make the Company the largest exporter of cigarettes from the United States. For the tenth consecutive year the Company realized an increase in its export sales.

To compete more effectively in certain markets abroad, the Company during 1966 entered into licensing agreements for the local manufacture of certain of its brands in three foreign countries and established a new manufacturing subsidiary in Switzerland.

Under agreement with Tabacalera Nacional, S.A., of Lima, Peru, manufacture of WINSTON, CAMEL, and SALEM Cigarettes was begun in that country at midyear.

Production of CAMELS in the Netherlands was begun in April by the House of Niemeyer, a famous name in the Dutch tobacco industry.

The Austrian tobacco monopoly, Austria Tabakwerke, A. G., the oldest cigarette manufacturer in Europe, began the production and sale of WINSTONS in that country in June.

In September, the Company's new subsidiary, Reynolds Cigarette Corporation, commenced the manufacture of WINSTONS in Switzerland.

These moves are part of an accelerated program of international expansion which will increase our world-wide tobacco business. Continuing study is being given to opportunities for the manufacture of Reynolds brands in other countries where there appears to be a greater profit potential than could be realized through export operations.

Zigarettenfabrik Haus Neuerburg, K.G., the Company's affiliate in West Germany, showed an increase in sales as a result of gains by REYNO and the introduction of a new filter cigarette under the well-known MERCEDES name. In the latter part of the year, Haus Neuerburg began to supply REYNO to the French market to gain the benefit of a lower consumer price applying to brands which are manufactured in the Common Market countries rather than being imported from the United States. Indications are that this arrangement is resulting in increased sales of REYNO in France.

International Subsidiaries and Licensees

R. J. REYNOLDS S.A., INC.
Geneva, Switzerland
JACQUES E. BORIN, *President*

REYNOLDS CIGARETTE CORPORATION
Geneva, Switzerland
MAURICE PERRET, *Manager*

REYNOLDS-NEUERBURG G.m.b.H.
Cologne, West Germany
HERBERT HOFFMANN, *Co-Manager*
HELMUT NEUERBURG, *Co-Manager*
WALTER KÖHNEN, *Co-Manager*
DR. ERNST STOLTENBERG, *Deputy Manager*

AUSTRIA TABAKWERKE, A.G. (Licensee)
Vienna, Austria

THEODORUS NIEMEYER, N.V. (Licensee)
Groningen, Holland

TABACALERA NACIONAL, S.A. (Licensee)
Lima, Peru

LA SIGARETTA DI FORMATO REGOLARE PIÙ VENDUTA IN AMERICA

ΤΟ ΣΙΓΑΡΕΤΟ ΜΕ ΦΙΛΤΡΟΝ ΜΕ ΤΗΝ
ΜΕΓΑΛΥΤΕΡΑΝ ΚΑΤΑΝΑΛΩΣΙΝ ΕΙΣ ΤΗΝ ΑΜΕΡΙΚΗΝ

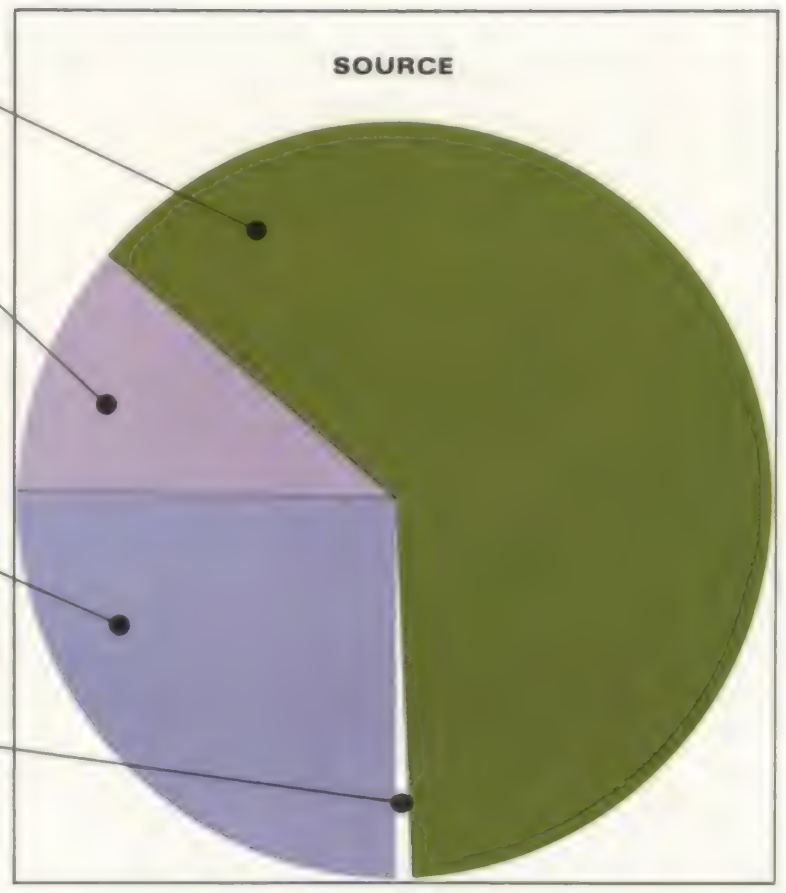
Immergrün

Die Reyno bleibt unverändert erfrischend, belebend, anregend. Zu jeder Jahreszeit. Immer, wenn Ihnen danach ist. So ein Hauch Menthol wirkt Wunder: wenn man frühjahrsmüde ist, im Sommer, wenn die Schwimmbäder wegen Überfüllung geschlossen sind, wenn der Herbstnebel auf die Stimmung drückt oder die Winterabende endlos sind. Jederzeit ist die Reyno eine erfrischende Abwechslung — und immer grün.

SOURCE & DISPOSITION OF CORPORATE FUNDS

Net earnings	$ 137,924,914
Depreciation	23,277,029
Decrease in working capital*—	
Increase in current liabilities	65,594,037
Less increase in current assets	8,878,194
	$ 56,715,843
Other	631,544
Total	$ 218,549,330

*Does not include working capital added through acquisitions



Dividends paid	$ 80,481,408
Expenditures for expansion and modernization	33,336,718
Purchase of The Chun King Corp.	63,400,000
Purchase of Common Stock	32,069,716
Other—	
Decrease in long-term debt	7,000,000
Sundry	2,261,488
	$ 9,261,488
Total	$ 218,549,330

SALES AND EARNINGS

Sales during 1966 of $1,785,328,996 were the highest in the history of the Company, 5.4% above the 1965 record of $1,693,148,320.

Net earnings of $137,924,914 were 3.4% greater than the previous year's record of $133,356,992. The earnings increase resulted from higher volume, increased efficiency from plant modernization, and modest price increases which partially offset rising costs.

Net earnings on the Common Stock, after payment of dividends on the Preferred Stock, were $3.48 per share on the basis of 39,481,149 shares outstanding at year end. Per share earnings in 1965 were $3.30, based on the 40,191,376 shares outstanding at the close of that year.

The 1966 amounts include the calendar year results of Filler Products, Inc., acquired during the year for 122,207 shares of R. J. Reynolds Tobacco Company treasury Common Stock and accounted for on a pooling of interests basis. On November 28, 1966, the capital stock of The Chun King Corporation and certain affiliated companies was purchased for $63,400,000. This transaction has been accounted for as a purchase and the operating results since the date of acquisition have been included in the consolidation.

DIVIDENDS

Dividends on the Common Stock were $2.00 per share for the year, 8% higher than the $1.85 paid during 1965. Dividends paid during the year aggregated $80,481,408, the highest for any of the sixty-seven consecutive years of dividend payments.

FINANCIAL POSITION

Short-term debt was $180,650,000 at year end, or $55,650,000 higher than at the close of the previous year. The higher debt was due to the diversification program, capital expenditures for modernization and expansion, and the accelerated prepayment of Federal income taxes. The Company was free of this type of debt for a short period in September prior to heavy seasonal purchasing of leaf tobacco.

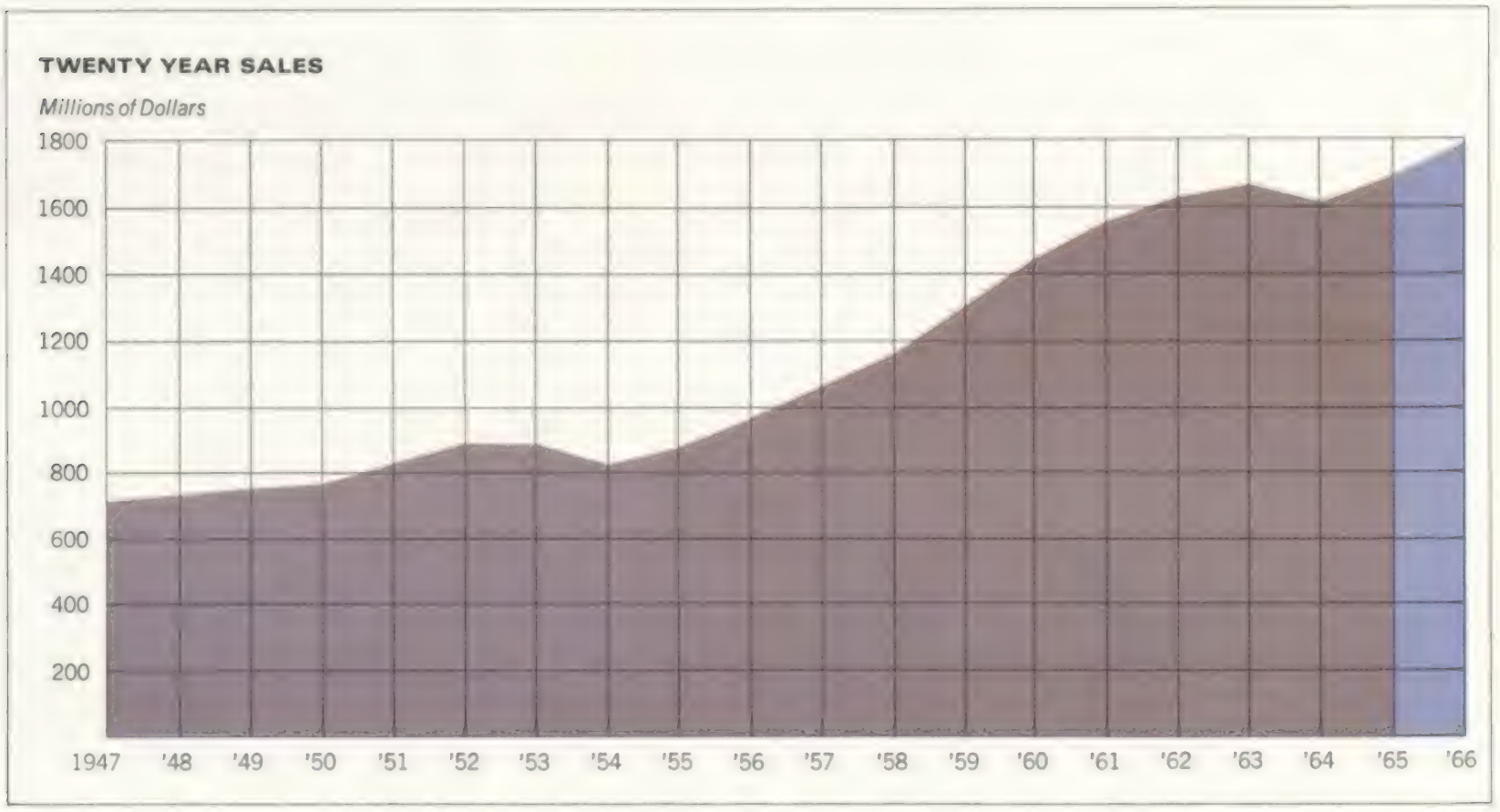
Long-term debt was reduced $7,000,000 during the year and amounted to $48,000,000 at year end.

At December 31, 1966, the Company held 1,490,384 shares of its Common Stock in the treasury, available for diversification and other corporate purposes. A total of 832,600 shares was purchased during the year at an average cost of $38.52 per share.

CAPITAL EXPENDITURES

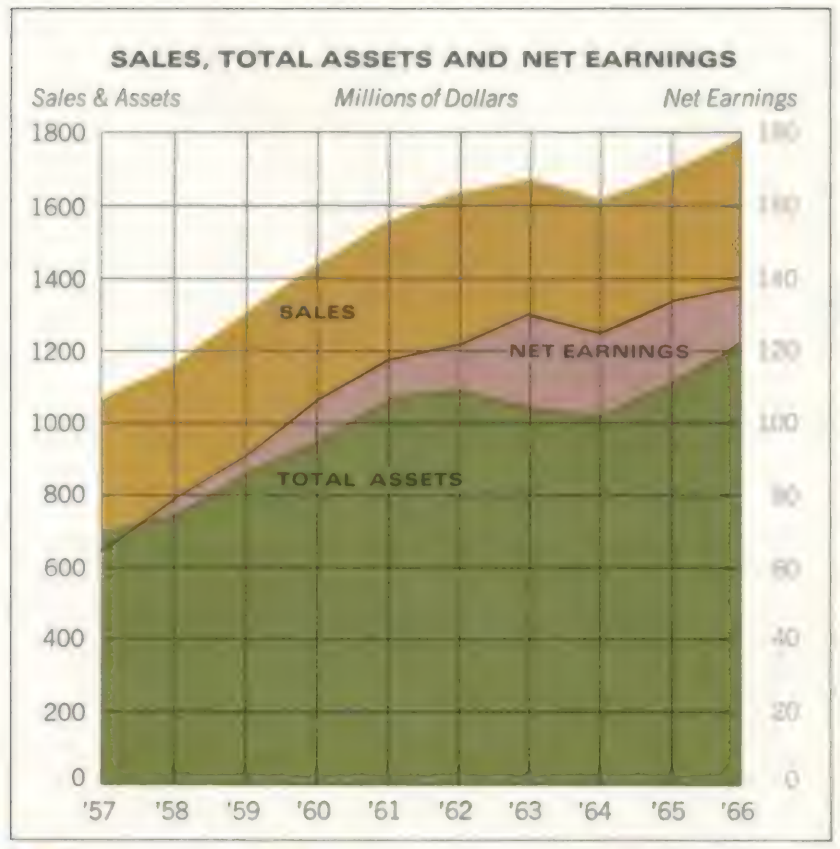
The Company invested $33,336,718 in expansion and modernization during 1966, slightly less than the record $34,727,471 spent in 1962. Major projects included cigarette machinery, construction of a new aluminum rolling plant at Huntingdon, Tennessee, and the expansion and modernization of the corn-refining facilities at Cedar Rapids, Iowa.

Capital expenditures for 1967 are currently estimated at $25,000,000. Included in the plans are the continuing modernization and expansion of existing facilities and the completion of a $7,500,000 research and development complex necessary to support the Company's diversification program.



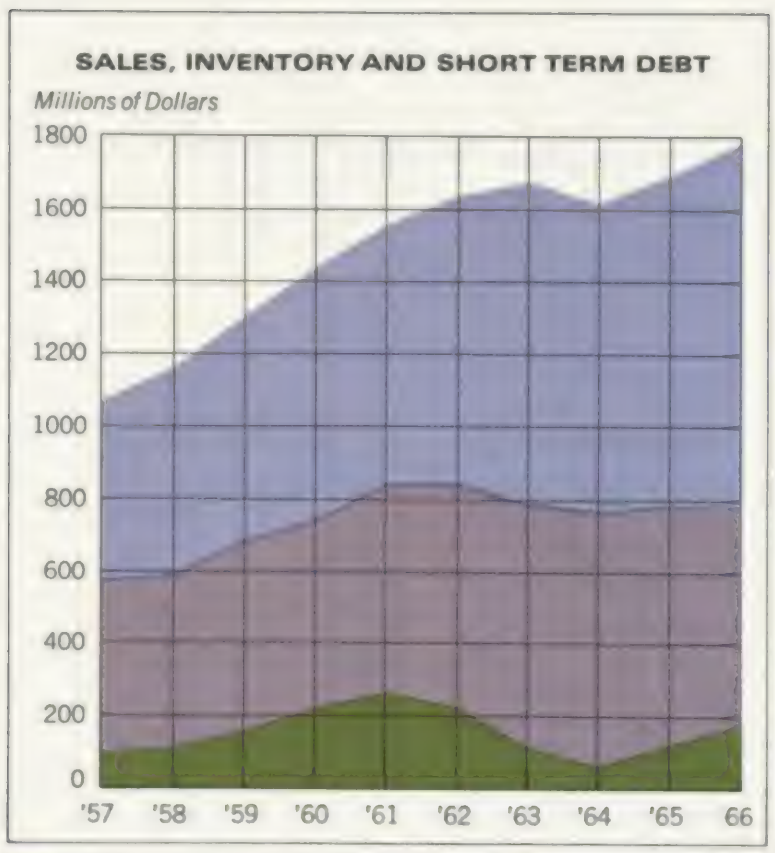
Ten Year Summary

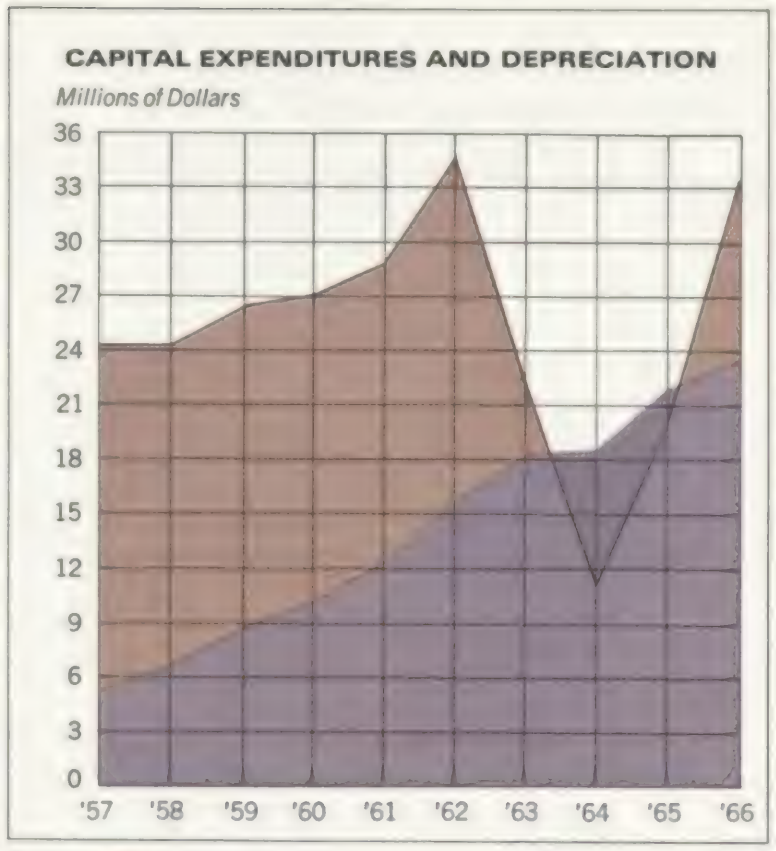
(Dollar amounts in thousands, except share statistics)

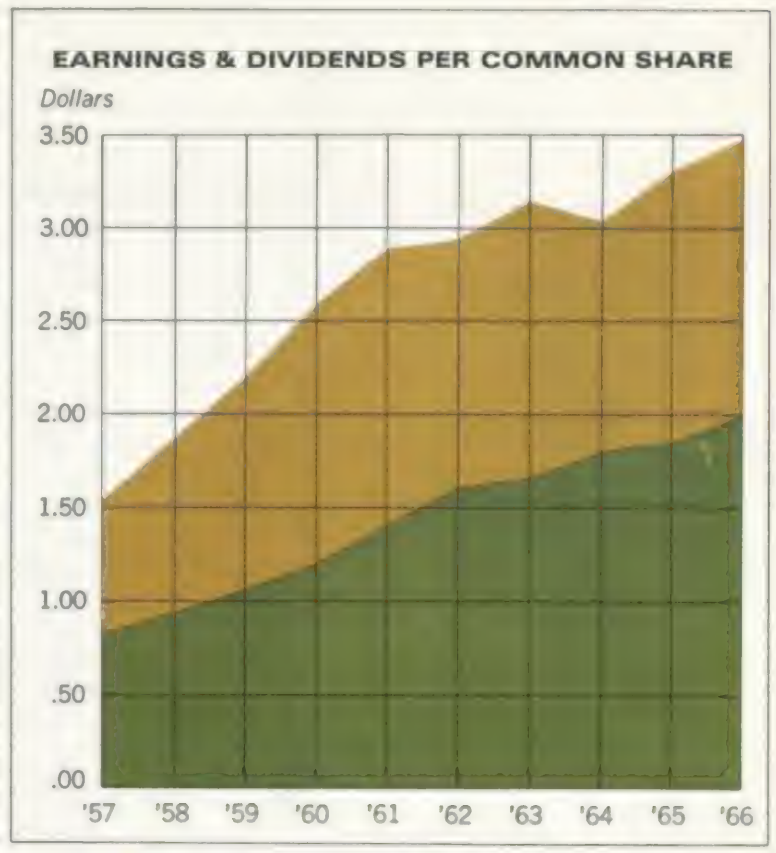


Year ended December 31,	1966	1965	1964
SALES, EARNINGS AND DIVIDENDS			
Net sales	$1,785,329	$1,693,148	$1,613,802
Earnings before taxes on income	275,126	266,376	251,725
Federal and state taxes on income	137,201	133,019	127,720
Net earnings	137,925	133,357	124,005
Dividends on Preferred Stock	720	722	768
Dividends on Common Stock	79,761	75,006	73,734
FINANCIAL POSITION AND EQUITIES			
Working capital	$ 556,445	$ 608,287	$ 665,030
Current assets:			
Inventories	790,020	783,434	775,282
Other current assets	113,485	98,224	91,908
Total current assets	903,505	881,658	867,190
Plant and equipment—net	201,166	181,633	144,361
Other non-current assets	100,709	48,696	7,651
Total assets	1,205,380	1,111,987	1,019,202
Current liabilities:			
Short-term debt	180,650	125,000	67,000
Current maturities of long-term debt	4,080	6,400	5,396
Federal and state income tax liabilities	65,554	77,431	82,422
Other current liabilities	96,776	64,540	47,342
Total current liabilities	347,060	273,371	202,160
Long-term debt	48,000	55,000	62,000
Equity of holders of Preferred Stock	20,000	20,000	20,272
Equity of holders of Common Stock	790,320	763,616	734,770
STATISTICAL INFORMATION			
Capital expenditures	$ 33,337	$ 20,246	$ 11,085
Annual depreciation	23,277	21,859	18,583
Per common share			
Net earnings*	3.48	3.30	3.02
Dividends (on R. J. Reynolds Tobacco Company shares)	2.00	1.85	1.80
Book value	20.02	19.00	17.98
*Based on shares outstanding at year end (Adjusted for 2-for-1 splits in 1961 and 1959)	39,481,149	40,191,376	40,868,647
Number of RJR shareholders at year end	131,343	118,281	114,010

The accounts of Pacific Hawaiian Products Company, acquired during 1963 on a pooling of interests basis, are included for all years.
The accounts of Filler Products, Inc., acquired during 1966 on a pooling of interests basis, are included for 1966 only.







SALES INVENTORY SHORT TERM DEBT CAPITAL EXPENDITURES DEPRECIATION EARNINGS DIVIDENDS

1963	1962	1961	1960	1959	1958	1957
$1,672,445	$1,627,541	$1,555,527	$1,438,547	$1,306,197	$1,163,258	$1,066,727
277,601	260,977	265,220	224,018	199,825	173,757	139,930
148,535	139,821	146,499	117,643	108,507	94,576	75,142
129,066	121,156	118,721	106,375	91,318	79,181	64,788
858	936	1,044	1,135	1,296	2,306	2,685
67,602	64,512	56,439	48,345	42,260	37,150	32,785
$ 620,120	$ 568,413	$ 542,047	$ 499,782	$ 480,112	$ 457,517	$ 468,362
795,565	845,929	845,185	745,125	686,324	596,859	588,001
82,551	84,317	84,590	82,099	73,710	68,478	61,840
878,116	930,246	929,775	827,224	760,034	665,337	649,841
150,023	147,568	129,001	112,606	96,153	79,830	64,376
9,501	11,313	9,085	13,926	3,199	3,162	3,116
1,037,640	1,089,127	1,067,861	953,756	859,386	748,329	717,333
114,500	222,350	258,556	216,639	158,422	106,447	94,691
5,700	6,000	6,000	6,000	6,000	6,000	6,000
96,304	89,605	92,939	77,633	78,173	74,430	63,301
41,492	43,878	30,233	27,170	37,327	20,943	17,487
257,996	361,833	387,728	327,442	279,922	207,820	181,479
68,000	74,000	80,000	86,000	92,000	98,000	104,000
22,459	24,974	27,871	29,511	34,301	37,666	67,012
689,185	628,320	572,262	510,803	453,163	404,843	364,842
$ 21,940	$ 34,727	$ 28,747	$ 27,072	$ 26,491	$ 24,087	$ 24,080
18,339	15,648	12,039	10,241	8,888	6,538	5,196
3.13	2.94	2.87	2.57	2.20	1.88	1.52
1.65	1.60	1.40	1.20	1.05	.92½	.82½
16.82	15.34	13.97	12.47	11.07	9.89	8.91
40,970,423	40,958,162	40,957,106	40,957,106	40,944,537	40,944,537	40,935,829
103,282	97,383	89,550	81,856	81,063	78,396	82,493

Consolidated Balance Sheets

DECEMBER 31, 1966 AND 1965

R. J. REYNOLDS TOBACCO COMPANY AND CONSOLIDATED SUBSIDIARIES

ASSETS	1966	1965
Current assets:		
Cash	$ 29,304,343	$ 25,152,631
Marketable securities—at cost (approximately equal to market)	403,827	1,795,972
Accounts receivable (less discounts)	80,452,225	69,014,579
Leaf tobacco, supplies, manufactured products, etc.—at cost (substantially all on last-in, first-out basis)	790,020,071	783,434,344
Prepaid expenses	3,324,654	2,260,093
Total current assets	903,505,120	881,657,619
Real estate, machinery and equipment—at cost	343,408,758	302,972,301
Less allowances for depreciation	142,242,879	121,339,033
Net real estate, machinery and equipment	201,165,879	181,633,268
Investments in (at cost, less reserves) and advances to unconsolidated foreign subsidiaries	9,541,668	8,089,417
Cost in excess of net assets of businesses acquired	84,219,363	35,122,752
Brands, trade-marks and good will	1	1
Other assets	6,947,713	5,483,526
	$1,205,379,744	$1,111,986,583

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	1966	1965
Current liabilities:		
Notes payable	$ 180,650,000	$ 125,000,000
Accounts payable and sundry accrued accounts	96,776,266	64,539,233
Portion of long-term debt due within one year (less principal amount of debentures in treasury—$2,920,000 in 1966; $600,000 in 1965)	4,080,000	6,400,000
Federal and state income taxes	65,553,967	77,431,170
Total current liabilities	347,060,233	273,370,403
Long-term debt (due annually 1968-1972, $7,000,000; 1973, $13,000,000):		
2½% Promissory Note	10,000,000	12,000,000
3% Debentures, due October 1, 1973	38,000,000	43,000,000
Total long-term debt	48,000,000	55,000,000
Stockholders' equity:		
Preferred Stock—par $100 Authorized and issued 490,000 shares, 3.60% Series	49,000,000	49,000,000
Common Stock—par $5 Authorized—60,000,000 shares; issued—40,971,533 shares	204,857,665	204,857,665
	253,857,665	253,857,665
Earnings retained	641,002,797	587,352,387
	894,860,462	841,210,052
Less cost of stock in treasury:		
Preferred Stock, 3.60% Series (290,000 shares)	24,571,415	24,571,415
Common Stock (1,490,384 shares in 1966; 780,157 shares in 1965)	59,969,536	33,022,457
	84,540,951	57,593,872
Total stockholders' equity	810,319,511	783,616,180
	$1,205,379,744	$1,111,986,583

Statement of Earnings

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

R. J. REYNOLDS TOBACCO COMPANY AND CONSOLIDATED SUBSIDIARIES

	1966	1965
Net sales	$1,785,328,996	$1,693,148,320
Costs and expenses:		
Cost of products sold	1,336,777,960	1,278,665,253
Selling, advertising, general and administrative expenses	143,256,125	121,986,079
Provision for depreciation	23,277,029	21,859,294
Interest and debt expense	6,891,968	4,261,702
	1,510,203,082	1,426,772,328
Earnings before provision for taxes	275,125,914	266,375,992
Provision for Federal and state taxes on income	137,201,000	133,019,000
Net earnings	$ 137,924,914	$ 133,356,992

Statement of Earnings Retained

FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

	1966	1965
Earnings retained at beginning of year	$ 587,352,387	$ 529,723,778
Add net earnings	137,924,914	133,356,992
	725,277,301	663,080,770
Deduct:		
Cash dividends—		
R. J. Reynolds Tobacco Company—		
Preferred Stock, 3.60% Series	720,000	722,129
Common Stock at $2.00 per share for 1966 ($1.85 per share for 1965)	79,745,591	75,006,254
Filler Products, Inc.—		
Common Stock at $.22½ per share	15,817	
Cost of treasury Common Stock (less related par value) issued for Filler Products, Inc. in excess of its earnings retained and certain combination expenses	3,793,096	
	84,274,504	75,728,383
Earnings retained at end of year	$ 641,002,797	$ 587,352,387

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE A—PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its domestic and Canadian subsidiaries. All intercompany items and transactions have been eliminated in consolidation. Accounts of other foreign subsidiaries are not consolidated, such investments being carried at cost less reserves to reduce them to the equity in the underlying net book assets.

On July 26, 1966, in exchange for 122,207 shares of its treasury Common Stock the Company acquired through a wholly-owned subsidiary, Penick & Ford, Limited, the net assets and business of Filler Products, Inc. and the capital stock of affiliated Filler companies. The combination has been accounted for on a pooling of interests basis with the accounts consolidated for the entire year 1966. Sales and net earnings of the Filler companies for the year 1965 aggregated $9,267,473 and $359,629, respectively.

On November 28, 1966, the Company acquired through a wholly-owned subsidiary, R. J. Reynolds Foods, Inc., the capital stock of The Chun King Corporation and certain affiliated companies for $63,400,000. The transaction has been accounted for as a purchase and the operating results since the date of acquisition have been included in the consolidation.

The Company is not amortizing the cost in excess of the net assets of businesses acquired.

NOTE B—OUTSTANDING STOCK OPTIONS

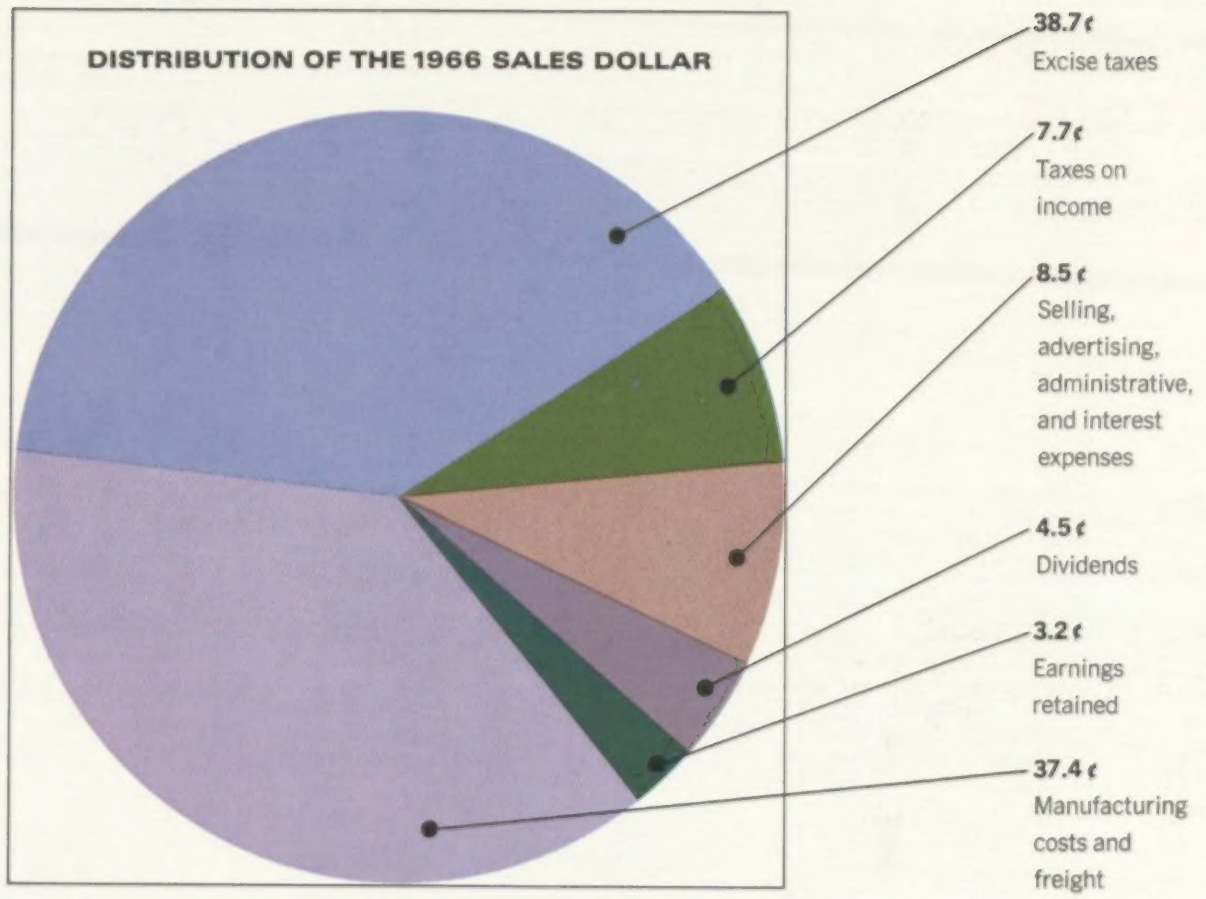
Substituted options to purchase shares of Common Stock of the Company, issued in 1963 as a result of the acquisition of Pacific Hawaiian Products Company, expire on August 1, 1967. During the year, substituted options for 1,776 shares were cancelled and options for 166 shares were exercised at $34.20 per share. At December 31, 1966, substituted options for 2,496 shares were outstanding at a price of $34.20 per share.

NOTE C—PENSION PLANS

The Company and its consolidated subsidiaries have several pension plans covering substantially all employees. Prior service cost has been funded. Based on recommendations of the Company's Actuary, changes during 1966 in the actuarial cost method and assumptions resulted in a net cost reduction of approximately $1,200,000 for the year.

NOTE D—PENICK & FORD

There is pending in the United States District Court for the District of New Jersey an action brought by the United States of America against the Company to require the divestiture of the assets and business it acquired in June 1965 from Penick & Ford, Ltd., Incorporated. The Company is contesting this action.



REPORT OF INDEPENDENT ACCOUNTANTS

R. J. Reynolds Tobacco Company,
its Directors and Stockholders

We have examined the consolidated financial statements of R. J. Reynolds Tobacco Company and consolidated subsidiaries for the year ended December 31, 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings and of earnings retained present fairly the financial position of R. J. Reynolds Tobacco Company and consolidated subsidiaries at December 31, 1966, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the statement of source and disposition of corporate funds for the year ended December 31, 1966, shown on page 18 presents fairly the information shown therein.

Ernst & Ernst

Winston-Salem, N.C., February 8, 1967

BOARD OF DIRECTORS

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A. H. GALLOWAY
BOWMAN GRAY
GORDON GRAY
REUBEN P. HUGHES
WILLIAM R. LYBROOK
CHARLES F. MYERS, JR.
DAVID S. PEOPLES
H. H. RAMM
FENTON D. ROYSTER
JOSEPH H. SHERRILL
W. S. SMITH, JR.
COLIN STOKES
CHAS. B. WADE, JR.

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Chairman, Board of Directors

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President and Chairman, Executive Committee

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Executive Vice President

DAVID S. PEOPLES
Executive Vice President

W. S. SMITH, JR.
Executive Vice President

H. H. RAMM
Vice President and General Counsel

CHAS. B. WADE, JR.
Vice President

WILLIAM R. LYBROOK
Vice President and Secretary

JOSEPH H. SHERRILL
Vice President

WILLARD M. BRIGHT
Vice President

FENTON D. ROYSTER
Vice President

WM. D. HOBBS
Vice President

C. H. JUDGE
Vice President

E. C. PETERSON
Treasurer

W. S. GRANT
Comptroller

REGISTRAR

MANUFACTURERS HANOVER TRUST COMPANY
350 Park Avenue
New York, New York 10022

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THE CHASE MANHATTAN BANK, N. A.
1 Chase Manhattan Plaza
New York, New York 10015

THE FIRST NATIONAL BANK OF JERSEY CITY
1 Exchange Place
Jersey City, New Jersey 07303

RJR

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